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DOMCO TARKETT INC.

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ANNUAL REPORT 2000

CHALLENGES AND OPPORTUNITIES

Domco Tarkett Inc. is the second largest North-American manufacturer of hard surface floor covering.

With nine manufacturing facilities and extensive distribution networks serving all regions of Canada and the United States through Domcor and independent distributors, Domco Tarkett offers one of the most comprehensive, high quality product lines in the flooring industry. Its vinyl sheet and tile floor coverings, laminated products, hardwood flooring, wall base and accessories are sold to commercial and residential users under the Azrock®, Domco®, Nafco®, Tarkett® and Harris Tarkett® brands.

Domco Tarkett places high value on the expertise and dedication of its 2,200 employees. The quality of its people is key to the Corporation's continued growth and its ability to provide superior products and services at competitive prices.

Domco Tarkett operates plants in Farnham, Québec; Florence, Alabama; Houston, Texas; Vails Gate, New York State; Johnson City, Tennessee; Montpelier, Indiana; Tillar, Arkansas and Stuart, Virginia.

Domco Tarkett's head office is located in Farnham; its sales and marketing administrative centres are based in Houston for Domco, in Whitehall for Tarkett and in Johnson City for Harris-Tarkett. Domcor's National Operations Centre is also in Farnham.

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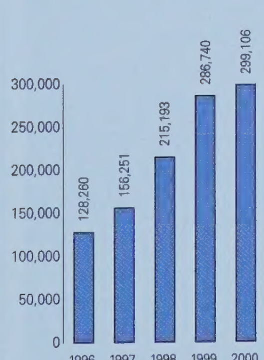
2000 Domco Tarkett Inc. — YEARS ENDED DECEMBER 31

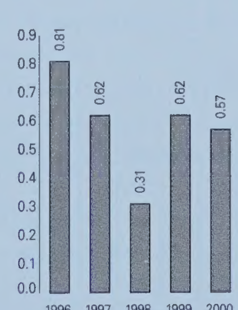
FINANCIAL HIGHLIGHTS

(Thousands of dollars, except per share amounts)

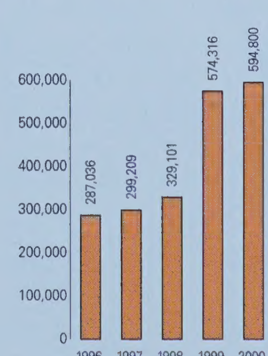
	2000 **$**	1999 $	1998 $	1997 $	1996 $
Revenues	**657,297**	491,452	350,798	350,321	328,422
Gross margin	**201,629**	156,641	122,592	126,723	128,136
Loss resulting from lawsuit	**–**	–	(2,404)	–	–
Income before taxes	**8,613**	20,835	17,737	28,499	28,065
Net income	**7,838**	18,388	14,725	20,362	19,573
Working capital	**159,301**	157,142	87,736	53,714	53,313
Total assets	**594,800**	574,316	329,101	299,209	287,036
Total long-term debt	**171,787**	178,789	65,646	58,876	62,618
Shareholders' equity	**299,106**	286,740	215,193	156,251	128,260
Basic earnings per share	**0.31**	0.83	0.82	1.27	1.39
Fully diluted earnings per share	**0.31**	0.83	0.80	1.09	1.21
Book value per share	**11.77**	11.29	10.91	9.61	8.06
Common share dividend	**0.15**	0.275	0.275	0.275	0.275



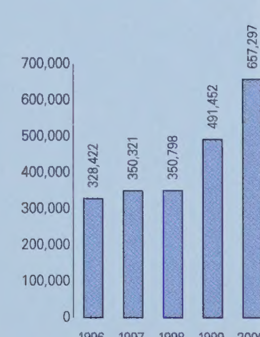
Shareholders' equity



Long-term debt:
Equity ratio



Total assets



Revenues

Nafco – Navona Stone®

OUR CORPORATION

We have restructured our internal organization to create a more decentralized and flexible operating environment. The Corporation is now divided into five profit centres, each defined by their primary business.

OUR PRODUCTS

Resilient Division

- Three residential sheet vinyl product lines were added to the Domco® *Natural Wonders* Collection: Rustic™, Natur-all™, and the unique Terresque®, with its textured dual gloss level.
- The true inlaid product line Inlaidia® was improved and relaunched with a revolutionary FlexBac® backing.
- The Navona Stone® line of tiles was honoured by the Design Journal with the 1999 Gold Award for Design Excellence (ADEX) in the resilient floor category.
- Elements®, a Nafco® luxury vinyl tile line with a unique two-sided bevelled feature, is rapidly becoming a best seller.
- New Rubber Wall Base was introduced.
- The Azrock® Integrated Commercial Flooring was awarded certification by the Greenguard™ registry.
- The innovative Static Dissipative Vinyl Composition Tile was introduced.
- New patterns and colours were added to Tarkett®'s Nature's Touch™ sheet flooring and luxury tile collections.
- The new Fleetwood™ Luxury Plank collection was launched by Tarkett®.
- Signature™, a revolutionary sheet vinyl with superior performance, was one of Tarkett®'s innovation.
- The Realife™ Laminate Floor line was extended.

Hardwood Division

- Harris-Tarkett was recognized by Floor Covering News as the best overall wood flooring manufacturer.
- Two new products were launched: Wendover Plank™ and Glenwood Strip™.
- Artisan Plank™ product line was selected by Home Magazine to receive its American Building Products Award.
- Signature Plus™ was recognized by Consumer Report as the top-ranked wood floor in the solid category.

OUR FACILITIES

Stuart, Virginia:

- Added a strip flooring line.

Farnham, Québec:

- Increased capacity by 20% due to additional oven capacity on a fusion line which brought about an investment in a second Regenerative Thermal Oxidizer.
- Developed high efficiency process for low gloss polyurethane coating on resilient flooring.

A Tribute to Robert W. Van Buren

On behalf of the Board of Directors of Domco Tarkett Inc., I wish to express all my gratitude to Robert Van Buren, who retired last December.

When Mr. Van Buren joined Domco eleven years ago, he faced a huge challenge: lead the Corporation back on the road to profitability while maintaining a leading edge on product quality, distribution and service.

With his extensive experience in the flooring industry and, in particular, his expertise in company reorganization, Mr. Van Buren took up the challenge and transformed the Corporation into the solid number two player of the North American hard surface flooring industry.

Not only has he accomplished the mission that had been bestowed upon him, but with his keen human sensitivity, his unique way to deal with people, he enlisted the enthusiastic support of his employees.

Throughout his career, he never lost his passion for the industry. Fortunately for us, Robert Van Buren will stay on as Vice Chairman of the Board of Domco Tarkett. We thank him very much for all he has done and wish him the very best for the future. May he enjoy life at the fullest!

Marc Assa
Chairman of the Board

Thanks from Robert W. Van Buren

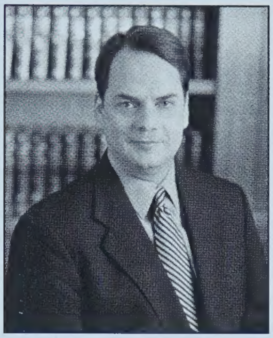
Dear employees and partners,

I would like to take this opportunity to tell you how grateful I am for your dedication and perseverance through all the good and difficult times we have shared over the past eleven years. Without your determination and energy, Domco Tarkett would not be where it stands today. I am extremely proud of our achievements.

Domco Tarkett is well positioned to meet future challenges with Ulf Mattsson at the helm. With his proven track record at Harris-Tarkett, I am confident that he is the man to meet those challenges and that, with your continued support, Domco Tarkett's growth potential will materialize, under his leadership.

Robert W. Van Buren

Robert W. Van Buren
Vice Chairman of the Board



Our overall objective for 2001 is to reverse the profitability trend in our resilient business and grow our hardwood business

A CHALLENGING YEAR FOR THE OVERALL FLOORING INDUSTRY AND DOMCO TARKETT

While the economy was strong at the beginning of 2000, it slowed down in the last two quarters. Both the U.S. and Canadian economies are still growing, albeit at a slower pace. Although fundamentals still appear to be sound, consumer spending is expected to slow down further in the coming months. Nevertheless, the residential real estate market should benefit from lower interest rates.

At the same time, the flooring industry is undergoing radical changes, including deep restructuring, emerging new distribution channels and e-commerce marketing challenges. To succeed, we must lead, not follow, anticipating shifts in customer needs and continuing to offer the best product value.

INCREASED PROFITABILITY: THE KEY TO CREATING SHAREHOLDER VALUE

For Domco Tarkett, 2000 was very challenging. Our overall objective for 2001 is to improve profitability and aggressively pursue these opportunities:

- Reverse the profitability trend in our resilient business;
- Grow our hardwood business.

Last year, our first step was to realign our business structure to better respond to rapid shifts in customer needs. Moving away from a functional structure, we divided the Corporation into five profit centres, each defined by its primary business (for more details, please refer to the graph on page 7). Under this new structure, the management team of each profit centre has been encouraged to take a more entrepreneurial approach to developing products with higher margins and customer satisfaction programs. By taking action, we have developed a clear vision and direction, implementing tactics to meet our growth objectives in the most cost-efficient way.

A CONSOLIDATION PHASE FOR THE RESILIENT MARKET SEGMENT

The resilient flooring industry, particularly its residential resilient segment, has entered into a consolidation phase. Costs and prices are subject to fierce competition and a shrinking number of players. In 2000, Domco Tarkett's resilient business results were very disappointing. In 2001, our main objective is to reverse the profitability trend by adopting a three-fold strategy:

- Reduce our fixed unit costs and break-even point;
- Improve our price and product mix through product development;
- Increase volume through expansion of our distribution channels.

Over the past few months, the consolidation of Domco, Tarkett and Harris-Tarkett imposed very difficult demands on everyone. However, it has led to a platform that should improve our operational efficiency. To ensure competitiveness, we have introduced several continuous improvement programs, reducing unit costs and improving customer service. A number of concrete measures have already been adopted accordingly:

- A production cost and operating expense rationalization program;
- A rigid pricing control program.

In 2000, unfortunately, higher raw materials and energy costs due to higher oil prices had a negative impact on our resilient gross margin and bottom line, limiting profitability growth.

Domco Tarkett's brands continue to be highly recognized for their superior quality. We plan to leverage the value of these brands. Furthermore, our teams are developing innovative, higher-margin products that are more in line with our actual cost structure. To this end, we launched new products in the last quarter of 2000 and in the first quarter of 2001.

While Domco Tarkett remains committed to its present distribution network, we plan to take advantage of new distribution channels, such as big box stores, and explore the potential of certain e-commerce applications.

WOOD FLOORING MARKET SEGMENT STILL VERY HEALTHY

Since wood, like all natural surfaces, has become increasingly popular with consumers, its market should not be compared to the resilient segment. Because the profitability of our wood business is on an acceptable level compared to that of our resilient segment, we will concentrate our efforts on growth as follows:

- Improve our product mix through innovation;
- Reduce production costs per unit;
- Take advantage of new distribution channels;
- Expand through internal growth initiatives and by acquisition.

OUR TOP PRIORITY: INNOVATION AND CONTINUOUS IMPROVEMENT AS A CORPORATE MISSION

Since our innovations will be driven by end-consumer needs, we will do the following:

- Add value according to current styling trends;
- Simplify installation for both the professional installer and do-it-yourselfer;
- Improve wear performance for long-lasting beauty;
- Ensure easy maintenance;
- Provide cost competitive solutions;
- Create environmentally friendly products.

Continuous improvement is another mission that will enable us to ensure cost leadership, flexibility and world-class service. Our philosophy is based on the strong belief that excellence can only be achieved if we release the creative power of Domco Tarkett's employees. True value can only be created by our colleagues on the factory floor and in customer contacts. Our philosophy is to promote daily incremental improvements that will ultimately give us a competitive advantage far more valuable than any traditional investment.

Much like our initiatives in the past, this one will be based on empowering people to make a difference.

Innovation and continuous improvement will ensure future growth, encourage our customers to buy our products and motivate our employees to fulfill their personal goals.

NEW DISTRIBUTION CHANNELS TO INCREASE VOLUME

Our present distribution networks for Domco, Tarkett and Harris Tarkett are key to our success. For this reason, we see great potential in reinforcing these partnerships to grow our mutual business.

New retail channels are emerging, leading to new growth opportunities. Home centres and retail-buying groups are taking a larger share of the flooring market, outpacing overall market growth.

We are developing strategies to improve our position in these segments.

OPPORTUNITIES DRIVEN BY EMERGING TECHNOLOGIES

We believe that emerging technologies will be critical for the future of our industry in terms of reducing costs and saving time.

Consumers are becoming increasingly dependent on the Web as a source of information and as a way to purchase products on-line. Other subjects of interest are the B2B (Business to Business) and B2C (Business to Consumer) e-commerce applications, with the potential to significantly reduce costs and remove supply chain inefficiencies. These affect all stages of operation.

We are working on a number of initiatives to improve our B2B and B2C capabilities and to ensure we stay ahead of the game, capitalizing on the opportunities these new technologies provide.

We are also merging the management information systems of Domco and Tarkett. Integrating information flow will enable us to optimize our stocks, maximize delivery service and, most importantly, fully leverage emerging B2B and B2C technologies.

DOMCO TARKETT GROUP MANAGEMENT

DOMCO SALES	TARKETT SALES	RESILIENT DIVISION	HARDWOOD DIVISION	DOMCOR
Brands Domco®, Azrock®, Nafco®	**Brand** Tarkett®	**Operations** Farnham, QC Florence, AL Houston, TX Vails Gate, NY	**Brands** Harris Tarkett®, Stuart™ **Operations** Johnson City, TN (2) Montpelier, IN Stuart, VA Tillar, AK	**Canadian Distributor of** Domco®, Azrock®, Nafco® and Harris Tarkett®

OUTLOOK

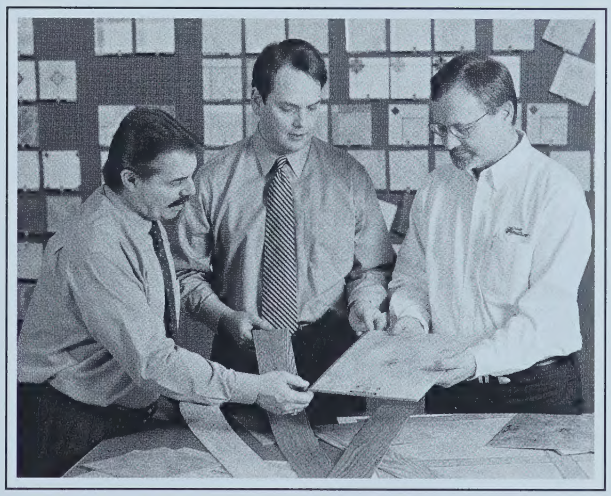
During the past few months, Domco Tarkett has concentrated mostly on operational efficiency. In 2001, we will take the next step and maximize shareholder value through increased profitability.

Our future success will be built on striving for excellence. We believe opportunities can only be seized through initiative and imagination. We know we have the people, organization and capabilities to fully achieve our potential.

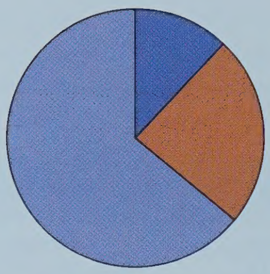
Of course, I cannot conclude without thanking Mr. Robert Van Buren for his accomplishments during the past 11 years. It is a great honor to succeed such a man. This is an exciting challenge I am happy to take up.

Respectfully,

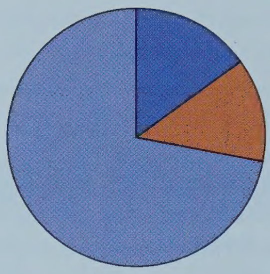
Ulf Mattsson
President and Chief Executive Officer



Resilient floor covering products – 64 %
Hardwood floor covering products – 24 %
Canadian distribution – 12 %



Revenues 2000



Revenues 1999

72 % – Resilient floor covering products
13 % – Hardwood floor covering products
15 % – Canadian distribution

The following analysis explains the variations in the Corporation's results of operations, financial position and cash flow. The discussion should be read in conjunction with the information contained in Domco Tarkett Inc.'s consolidated financial statements and the related notes to the financial statements. Unless otherwise stated, all amounts will be in Canadian dollars.

FINANCIAL REVIEW

Domco Tarkett is a manufacturer and distributor of flooring products. Its manufacturing operations include the resilient and hardwood flooring markets in addition to other complementary products. Distribution operations include the sale of products manufactured by the Corporation and its trading partners.

A comparative analysis of the 2000 and 1999 financial statements must take into consideration the significant impact of the Tarkett North America Holding, Inc. (Tarkett NA) acquisition completed on July 30, 1999. Therefore, a comparative analysis between the current year's consolidated financial statements and the 1999 combined financial statements – after excluding the transactions between the two corporations – is much more meaningful, as shown in the graph below.

OPERATING RESULTS

Consolidated net sales for fiscal year 2000 reached $657.3 million, an increase of 33.7% over the previous year. This increase is due to the acquisition of Tarkett NA, completed on July 30, 1999. Combined net sales for the two corporations, excluding intra-corporate transactions, for fiscal year 1999 amounted to $680.6 million. The decrease in 2000 consolidated sales is mainly attributed to fierce competition in the resilient flooring market.

While Domco Tarkett's hardwood flooring segment retains very healthy and promising fundamentals, its resilient flooring segment is experiencing a difficult environment, posting lower sales.

(In thousands of dollars)	**2000**	1999 consolidated	1999 combined (unaudited)
Sales	**657,297**	491,452	680,572
Cost of goods sold	**455,668**	334,811	471,888
Gross margin	**201,629**	156,641	208,684
Expenses	**193,016**	135,806	204,295
Income before provision for income taxes	**8,613**	20,835	4,389*

* The 1999 combined results exclude the costs related to the closing of the Whitehall, Pennsylvania, plant.

Domco – Terresque®

Tarkett – Signature™

Resilient Revenue

For fiscal year 2000, Domco Tarkett's resilient business segment posted consolidated net sales of $420.7 million, an increase of 19% compared to fiscal year 1999. However, combined net sales totaled $457.9 million for fiscal year 1999. This decrease is mostly attributed to lower sheet vinyl and luxury vinyl tiles sales.

The residential resilient products are manufactured under three brands: Domco®, Nafco® and Tarkett®. Increasing sales in today's challenging environment will be difficult. Through research and development undertaken by Domco Tarkett and by major shareholder Tarkett Sommer, however, the Corporation's product lines can be broadened and improved with the introduction of new products and designs. To capitalize on the continued popularity of "like-real" flooring, Domco Tarkett's Research and Development department developed a new process in 1999 that uses extreme heat and pressure to imitate the genuine surfaces. In 2000, Domco Tarkett made efforts to position itself as the only hard surface manufacturer to offer this unique look in sheet vinyl and in the laminated products it sells.

Three new Domco® residential sheet vinyl product lines were added to the *Natural Wonders* collection: Rustic™, Natur-all™ and Terresque®. The latter's texture was created with a combined mechanical and chemical embossing process that gives it an authentic look with textured dual gloss level. Domco has also relaunched its true inlaid product line, Inlaidia®, with deeper colours, a wider selection of designs coupled, again, with a "like real" texture. One of its most unique features is its FlexBac® backing, a super resilient backing that makes the floor nearly impervious to cuts and tears, indentations and water damage. Another Domco brand, Nafco®, brought home the gold with a win for excellence in product design with its Navona Stone® line of tile. This award, known as ADEX, is bestowed annually by industry professionals and the Design Journal editorial staff.

The most innovative Tarkett® product this year is Signature™: a top-of-the-line sheet flooring with a tough new construction, exceptional performance features, trend-setting designs enhanced by the Nature's Touch™ embossing technique. Another Tarkett® product line launched this year was the Fleetwood™ collection of luxury planks, which offers richly embossed wood grain textures.

The commercial resilient products are manufactured under two brands: Azrock® by Domco and Tarkett®. In 2000, Azrock® Integrated Commercial Flooring was awarded certification by the Greenguard™ Registry in recognition of its high standards when it came to indoor air quality emission reduction. This qualification assures purchasers and users that these products are environmental-preferred and will contribute minimal levels of pollutants into the air. Azrock® also introduced its latest innovative addition to commercial flooring, the Static Dissipative Vinyl Composition Tile, which will reinforce its position in environments where static control is essential, such as laboratories and hospitals.

Tarkett introduced the Art in Structure CD for the commercial market, a comprehensive software design program for architects, specifiers and interior designers enabling them to easily create virtual flooring designs.

Hardwood Revenue

The hardwood division markets its products under the Harris Tarkett® and Stuart™ brand names.

Wood flooring is increasingly popular with today's customers. It is the fastest-growing market segment. As demonstrated by the increase of 7.4% over fiscal 1999 combined sales, it is also very promising. Indeed, consolidated sales for fiscal year 2000 amounted to $159.1 million compared to combined sales for fiscal year 1999 of $148.1 million.

Harris Tarkett – Wendover Plank™

Harris-Tarkett has launched two new product lines in 2000: Wendover Plank™, a five-inch-wide engineered floor plank and Glenwood Strip™, an entry-level solid strip. This has not gone unnoticed by the industry. Harris-Tarkett was recognized by Floor Covering News as the "best overall wood flooring manufacturer" and Artisan Plank™ was recognized as "one of Home Magazine's 10 best building products for 2000".

Distribution Revenue

In Canada, Domco®, Nafco® and Azrock® products are distributed exclusively by Domcor, a division of Domco Tarkett. In addition, Domcor also distributes Harris Tarkett® products and a complete line of flooring products manufactured by other companies, such as Farnham Mills®, MultiLook™, Linosom® and Somplan®.

For the year ended December 31, 2000, sales related to distribution activities amounted to $77.5 million, compared to $74.7 million for fiscal year 1999. This represents an increase of 3.8%.

While maintaining the integrity of the current distribution networks, the newly created internal organization enabled the field force to concentrate on increasing sales through both new products and displays and new partnerships with distributors and retailers. Going forward, the Corporation is currently exploring new distribution channels, such as big box stores and e-business applications.

In 2000, Domco Tarkett had 85% of its total sales in the U.S. market compared to 81% a year earlier. This advance reflects the Corporation's improved U.S. coverage.

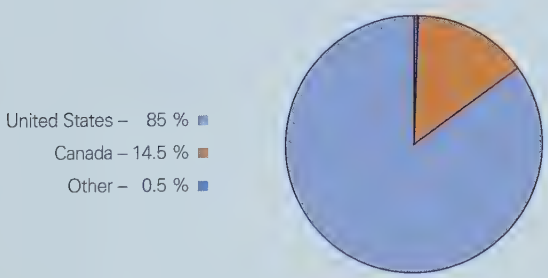
The consolidated gross margin, as a percentage of sales, amounted to 30.7% and 31.9% respectively for fiscal years 2000 and 1999. The decrease is due to a combination of lower sales levels, higher raw material costs for resilient products, and higher sales in the hardwood division. Given the lower margins of the hardwood flooring (versus the resilient flooring segment) and price pressures on the resilient flooring segment, the Corporation's overall gross margin could not reach previous levels.

The consolidated gross margin for resilient products amounted to $139.9 million or 33.2% for fiscal year 2000 compared to $154.6 million or 33.8% of sales, for fiscal year 1999 combined. Introduction of high-end products with higher margins, in addition to operating expense rationalization programs put in place to reduce the overall break-even point, were offset by higher raw materials costs and price pressures due to fierce competition.

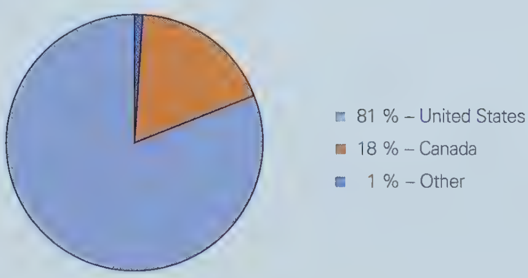
The margin of the hardwood flooring segment is lower than that generally observed in the resilient flooring segment. Indeed, the hardwood flooring segment's consolidated gross margin totaled $44.4 million, or 27.9% of sales, for fiscal year 2000, compared to $38.6 million, or 26.1% of sales, for fiscal year 1999. This lower margin is compensated by lower selling, general and administrative expenses.

For fiscal year 2000, consolidated administrative, distribution and selling expenses amounted to $148.3 million, or 22.6% of sales, compared to combined administrative, distribution and selling expenses for fiscal year 1999 of $157.7 million or 23.2% of sales. This $9.4 million reduction includes a $3.7 million net gain related to curtailment in the Corporation's Benefit Plans. For fiscal year 1999, consolidated selling and administrative expenses amounted to $105.4 million or 21.5% of sales.

Domco Tarkett posted consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) of $53.3 million or 8.1% of consolidated revenues and $51.2 million or 10.4% of revenues for fiscal years 2000 and 1999, respectively. Combined EBITDA for the two corporations amounted to $51.0 million or 7.5% of sales for fiscal year 1999.



Revenues 2000



Revenues 1999

Azrock® – Cortina™

Azrock® – Cortina Grande™

Azrock® – Cortina Grande™

Azrock® – Somplan®

Consolidated financial expense amounted to $13.9 million, or 2.1% of sales, for fiscal year 2000 compared to consolidated financial expense of $8.4 million, or 1.7% of sales, for the previous year. The increase is due to new credit lines, put in place in 1999, and rising interest rates in 2000.

Consolidated depreciation expense amounted to $23.6 million, or 3.6% of sales, for fiscal year 2000 compared to $15.5 million, or 3.2% of sales, for fiscal year 1999. The increase reflects the impact of the assets acquired in the Tarkett NA transaction and all subsequent investments to improve operational efficiency and productivity.

For fiscal year 2000, consolidated net income totaled $7.8 million, or $0.31 per share compared to $18.4 million, or $0.83 per share for fiscal year 1999. Combined net income for fiscal year 1999 was $6.4 million, or 0.25 per share.

LIQUIDITY AND FINANCIAL POSITION

For the year ended December 31, 2000, operating cash flow before the net change in non-cash working capital related to operations was $42.0 million compared to $40.5 million for fiscal year 1999.

The increase of cash resulting from the net change in non-cash working capital related to operations was $23.1 million compared to a $0.8 million reduction for fiscal year 1999. This increase is mainly due to the increase in the level of payables, lower inventories and prepaid expenses.

For fiscal year 2000, investments totaled $17.1 million. These were for the improvement of product quality, plant efficiency and productivity in light of strong sales growth in the hardwood flooring segment, in addition to the completion of a product line moved from Whitehall following the closing of that plant.

Repayment of long-term debt totaled $13.7 million in fiscal year 2000 compared to $57.8 million for fiscal year 1999. The decrease is due to certain high repayments made in mid-fiscal year 1999.

As at December 31, 2000, the Corporation had unused short-term credit facilities of US$25.0 million. In accordance with the Credit Agreement following the Tarkett NA acquisition, it also has a revolving credit of US$25.0 million, of which US$15.0 million is unutilized and is available until July 31, 2004. As at December 31, 2000, all repayments on banking credit are current and all financial covenants are met.

FINANCIAL POSITION

At December 31, 2000, the Corporation posted total assets of $594.8 million compared to $574.3 million a year ago.

Cash and cash-equivalents totaled $53.9 million at the end of fiscal year 2000 compared to $20.0 million at the end of 1999. The increase is due to increased payables and a reduction of inventories and prepaid expenses as at December 31, 2000.

Working capital amounted to $159.3 million compared to $157.1 million as at December 31, 1999.

Net value of property, plant and equipment totaled $163.4 million at the end of fiscal year 2000 compared to $167.9 million a year earlier.

Other assets mainly consist of sales aids, including displays and samples.

Long-term debt was $155.4 million at December 31, 2000 or $171.8 million, including the current portion of the long-term debt, compared to $172.6 million and $178.8 million, respectively, a year earlier.

At December 31, 2000, the shareholders equity position increased by 4.3% to reach $299.1 million. A dividend payment of $3.8 million partly offset the $7.8 million in consolidated net income for fiscal year 2000. Deferred translation adjustments increased 78.9% from $10.5 million to $18.8 million. The significant increase reflects a weaker Canadian currency (versus the U.S. dollar) in 2000.

Based on current operating budgets, the management of Domco Tarkett believes that its financial position will enable the Corporation to meet its operating cash requirements, including innovation and improvement of products through development activities and capital expenditures, and to service its debts according to established terms.

CAPITAL EXPENDITURES

For fiscal year 2001, capital expenditures budget will total $17.0 million in an effort to meet higher sales volumes in both the resilient and hardwood flooring markets. The Corporation intends to finance these investments via its internal cash flow and unused credit facilities.

DIVIDENDS

In 2000, total dividends amounted to $3.8 million, compared to $6.1 million in 1999. The policy of the Corporation is to pay dividends on a semi-annual basis. Dividends were declared and paid for each of the last eight years, except for December 2000. Following the review of the Corporation's performance in view of this year's slowdown, the Board prudently decided not to declare any dividend, enabling the Corporation to retain all earnings and, in turn, to maximize its financial strength.

RISKS AND UNCERTAINTIES

The future performance of Domco Tarkett is dependent on a number of factors, including market cyclicality/seasonality, competition and the risks associated with currency, credit, environment, raw material and energy costs.

Cyclicality and seasonality. The flooring market is dependent on the level of construction and renovation activities in both the commercial and residential sectors. The commercial sector lags the economic cycle by one to two years, while the residential market is more closely linked to its ebbs and flows. The Corporation has noted that the renovation sector is generally less affected by the economic cycle than the new construction sector. In some instances, particularly in the case of certain high-end products, demand may actually increase during slow economic periods because some consumers decide to renovate their homes rather than move.

Competition. Domco Tarkett products are in competition with other types of flooring available on the North American market. There has been increased penetration of the high-end residential market by flooring made of natural materials, such as wood and stone, as well as by new products such as laminated flooring, which has affected the vinyl flooring and carpeting markets. Throughout the years, Domco Tarkett has developed quality and esthetically appealing resilient flooring that rivals natural materials. The Corporation has undertaken an internal reorganization, creating a resilient division that enables marketing teams to focus all their efforts on sales growth.

Currency. More than 80% of sales are generated in the United States. Any increase in the Canadian dollar versus the U.S. dollar could have a negative impact on the Corporation's competitiveness in the United States. Canadian dollar depreciation in 2000 was favorable for the Corporation's operations. Sales of Canadian-made products in the U.S. market are naturally hedged to a large extent by the high volume of raw materials purchased from the United States.

Credit. The Corporation sells products to customers primarily in Canada and the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers who are spread across different geographic areas. At December 31, 2000, no customer accounted for more than 10.0% of our overall sales.

Environment. Both in Canada and the United States, the Corporation is subject to various laws relating to employee health and safety, in addition to the control of various substances. In general, its operations do not involve activities likely to create significant environmental risks. However, the Corporation's operations involve the reject of various materials that must be sorted, stored, transported and disposed of in accordance with applicable laws.

Raw materials. Raw materials represent an important percentage of the cost of goods sold. In the Resilient group, the majority of the raw materials consist of vinyl resins, carrier felts, release carriers, plasticizers, calcium carbonate, stabilizers and color pigments. These materials, representing more than 60% of cost of goods sold, are purchased from primary suppliers, with alternate sources available in most cases. However, since resilient products are petroleum-derived, their prices are therefore affected by fluctuations in petroleum prices. In the Hardwood group, the majority of the raw materials consist of raw lumber, veneer logs and southern pine plywood, representing from 50% to 55% of the cost of goods sold. These prices fluctuate with changes in supply and demand.

OUTLOOK

Domco Tarkett's management remains optimistic for 2001. With its plants among the most efficient in the industry, repositioned product lines, a portfolio of quality brand names and an expanded distribution network, management believes that its strategies to improve sales will provide Domco Tarkett with opportunities to increase its market share and see profitable growth.

Delivering higher shareholder value through the highest-quality products and the best installation and post-installation service to both residential and commercial market segments is the top priority.

Even if the overall resilient category is expected to remain stable in 2001, Domco Tarkett's management is taking the necessary steps to grow its market share through dedicated sales efforts in addition to new and exciting products and product improvements.

The Corporation's efforts to expand and strengthen our distribution networks will help us achieve these objectives. The most important challenge of the residential resilient industry remains to improve profitability in light of rising raw materials costs in a mature market.

The overall hardwood category is expected to continue to grow in the coming year. Domco Tarkett is also taking the necessary steps to increase its market share in this promising market environment.

Domco Tarkett's solid financial position and its cash flow from operations should enable the Corporation to pursue its operational objectives.

Quarterly financial results (unaudited)
(in thousands of dollars, except per share amounts)

	2000				1999			
	Quarters ending				Quarters ending			
	March 25	**June 24**	**Sept. 23**	**Dec. 31**	March 27	June 26	Sept. 25	Dec. 31
Revenues	**154,452**	**181,599**	**166,818**	**154,428**	77,807	103,228	155,048	155,369
Gross margin	**50,641**	**57,724**	**48,958**	**44,306**	27,945	33,381	46,863	48,452
Net income	**4,005**	**6,283**	**1,249**	**(3,699)**	3,386	5,346	4,925	4,731
Basic earnings per share ($)	**0.16**	**0.24**	**0.05**	**(0.14)**	0.17	0.27	0.20	0.19

The fourth quarter results compare negatively to the same quarter of 1999. Both resilient sales and gross margin percentage were lower, compensated partially by higher sales in the hardwood division. Additional operating expenses were related to the Whitehall building, severance and additional tax expenses. These were partially offset by a benefit curtailment gain.

DOMCO TARKETT PLANTS

	Products	ISO Certification
Resilient Division		
Farnham, Québec	Sheet vinyl	ISO 9001
Florence, Alabama	Luxury vinyl tiles and planks, vinyl and rubber wall base, solid vinyl tiles (SVT) and vinyl enhanced tiles (VET)	ISO 9002
Houston, Texas	Commercial vinyl composition tiles (VCT)	ISO 9002
Vails Gate, New York	Commercial vinyl composition tiles (VCT)	Expected in 2003
Hardwood Division		
Johnson City, Tennessee	Longstrips and prefinished engineered and solid products	Expected in 2002
Johnson City, Tennessee	Unfinished parquets	Expected in 2002
Montpelier, Indiana	Veneer and plywood: intermediate product delivered to Johnson City	Expected in 2002
Stuart, Virginia	Solid strips	Expected in 2003
Tillar, Arkansas	Unfinished solid strips	Expected in 2003

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Domco Tarkett Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles.

When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Domco Tarkett Inc. maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Ulf Mattsson
President and Chief Executive Officer
March 14, 2001

Auditors' Report

To the Shareholders of
Domco Tarkett Inc.:

We have audited the consolidated balance sheet of Domco Tarkett Inc. (the "Corporation") as at December 31, 2000 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for 1999 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Montréal, Canada
January 26, 2001

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	2000 $	1999 $
ASSETS		
Current assets:		
Cash and cash equivalents	**53,907**	19,981
Accounts receivable	**66,751**	64,970
Inventories (note 3)	**139,395**	141,445
Prepaid expenses	**5,607**	8,854
Income taxes recoverable	**5,669**	4,558
	271,329	239,808
Property, plant and equipment (note 4)	**163,402**	167,914
Goodwill, net of accumulated amortization	**132,964**	135,448
Future income taxes (note 12)	**–**	3,958
Other assets (note 5)	**27,105**	27,188
	594,800	574,316
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**95,681**	76,481
Current portion of long-term (note 7)	**16,347**	6,185
	112,028	82,666
Long-term debt (note 7)	**155,442**	172,604
Future income taxes (note 12)	**3,475**	3,976
Accrued employees' future benefit liabilities (note 10)	**24,749**	28,330
Shareholders' equity:		
Capital stock and contributed surplus (note 8)	**166,931**	166,891
Retained earnings	**113,352**	109,325
Deferred translation adjustments (note 9)	**18,823**	10,524
	299,106	286,740
Commitments and contingencies (notes 13 and 14)		
	594,800	574,316

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Domco Tarkett Inc. — YEARS ENDED DECEMBER 31, 2000 AND 1999

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars, except per share amounts)

	2000 **$**	1999 $
Revenues	**657,297**	491,452
Cost of goods sold	**455,668**	334,811
Gross margin	**201,629**	156,641
Expenses:		
Administrative, distribution and selling expenses (note 10)	**148,292**	105,423
Depreciation	**23,562**	15,481
Amortization of goodwill	**7,250**	6,552
Interest on long-term debt	**13,912**	8,350
	193,016	135,806
Income before provision for income taxes	**8,613**	20,835
Provision for (recovery of) income taxes (note 12):		
Current	**(3,048)**	5,126
Future	**3,823**	(2,679)
	775	2,447
Net earnings	**7,838**	18,388
Earnings per share:		
Basic	**0.31**	0.83

See accompanying notes to consolidated financial statements.

Domco Tarkett Inc. — YEARS ENDED DECEMBER 31, 2000 AND 1999

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of dollars)

	2000 **$**	1999 $
Balance, beginning of year	**109,325**	97,334
Net income	**7,838**	18,388
	117,163	115,722
Common share dividends	**(3,811)**	(5,425)
Preferred share dividends	**–**	(709)
Fees relating to conversion of preferred shares, net of income taxes	**–**	(263)
Balance, end of year	**113,352**	109,325

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)

	2000 $	1999 $
Cash flows from operating activities:		
Net income	**7,838**	18,388
Adjustments to determine net cash from operating activities:		
Depreciation	**23,562**	15,481
Amortization	**8,090**	7,177
Future income taxes	**3,823**	1,059
Other	**(1,323)**	(1,591)
	41,990	40,514
Net change in non-cash working capital items related to operations	**23,051**	(760)
	65,041	39,754
Cash flows from (used in) financing activities:		
Repayment of long-term debt	**(13,744)**	(57,836)
Dividends	**(3,811)**	(6,134)
Other	**(394)**	(182)
Increase in long-term debt	**–**	158,382
Repayment of long-term debt - parent company	**–**	(91,682)
Debt issue costs	**–**	(1,464)
	(17,949)	1,084
Cash flows from (used in) investing activities:		
Purchase of property, plant and equipment	**(17,064)**	(32,304)
Proceeds from disposal of property, plant and equipment	**1,763**	797
Business acquisition, net of cash acquired of $10,488,000 (note 2)	**–**	280
	(15,301)	(31,227)
Effect of changes in exchange rates on cash and cash equivalents	**2,135**	(408)
Net increase in cash and cash equivalents	**33,926**	9,203
Cash and cash equivalents, beginning of year	**19,981**	10,778
Cash and cash equivalents, end of year	**53,907**	19,981
Supplemental cash flow information:		
Interest paid	**14,305**	6,654
Recovery of income taxes, net	**4,357**	605

See accompanying notes to consolidated financial statements.

(Tabular figures in thousands of dollars, except number of shares)

Domco Tarkett Inc. (the "Corporation"), incorporated under the Canada Business Corporations Act, is a manufacturer and distributor of floor covering products. These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Corporation and those of its subsidiaries from the respective dates of acquisition.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Income taxes:

Effective January 1, 2000, the Corporation adopted the new Canadian Institute of Chartered Accountants ("CICA") standard relating to the accounting for income taxes. The CICA's new standard on accounting for income taxes adopts the asset and liability method for future income taxes.

Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities which are measured using enacted or substantively enacted tax rates represent amounts that are expected to be recovered or settled. Under the asset and liability method, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Pursuant to the deferral method, which was applied in 1999 and prior years, deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the calculation. Under the deferral method, deferred taxes are not adjusted for subsequent changes in tax rates.

The Corporation has adopted the new income tax accounting standard retroactively, without restating the financial statements of any prior periods. The adoption of this new standard had no significant effect on the Corporation's financial statements.

b) Employee future benefits:

The Corporation and its subsidiaries maintain defined benefit and defined contribution pension plans for the benefit of substantially all employees. In addition, the Corporation provides other benefits, such as life and medical insurance, to certain retired employees.

Effective January 1, 1999, the Corporation adopted the new recommendations of the CICA regarding employee future benefits. The adoption of the new recommendations had no significant impact on consolidated financial statements of prior years, except for note disclosure.

The Corporation and its subsidiaries accrue their obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market value.
- Past service costs resulting from plan amendments and net actuarial gains (losses) are amortized on a straight-line basis over the average remaining service period of the active employees.
- The average remaining service period of the active employees covered by the pension plan is between 11 and 15 years (1999 - 11 and 15 years). The average remaining service period of the active employees covered by the other retirement benefit plans is between 8 and 11 years (1999 - 8 and 11 years).

c) Cash and cash equivalents:

Cash and cash equivalents comprise cash and highly liquid investments which have a maturity of three months or less from the date of acquisition.

(Tabular figures in thousands of dollars, except number of shares)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

d) Inventories:
Finished goods and work-in-process are valued at the lower of cost, determined on the first in, first out basis, and net realizable value. Raw materials are valued at the lower of cost, determined on the first in, first out basis, and replacement cost.

e) Property, plant and equipment:
Property, plant and equipment are recorded at cost, net of applicable government grants and investment tax credits which could become partially repayable should the Corporation fail to maintain specified employment and investment levels. Depreciation is provided based on the estimated useful lives of the assets on the following basis:

Assets	Methods	Rate
Buildings and improvements	Declining balance and straight-line	3% to 20%
Equipment	Declining balance and straight-line	4% to 33%
Property under capital lease	Straight-line	3%

No depreciation is provided for assets under construction or development.

f) Deferred charges:
Charges related to debt financing are deferred and amortized over the duration of the financing. Other deferred charges are amortized using the straight-line method over their estimated useful lives.

The net cost of sales aids is deferred and amortized using the straight-line method over a period not exceeding 24 months.

g) Goodwill:
Goodwill, representing the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired, is amortized using the straight-line method over a period not exceeding 25 years. The value of goodwill is regularly evaluated by management by reviewing the net recoverable amounts of the related acquired businesses. The net recoverable amount represents the estimated future operating income of the acquired business on a non-discounted basis. Any permanent impairment in the value of goodwill is written off against earnings.

h) Translation of foreign currencies:
The Corporation translates the accounts of its self-sustaining US subsidiaries using the current rate method. All balance sheet items are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. The resulting net gain or loss is shown as "Deferred translation adjustments" in shareholders' equity.

Accounts of the Corporation in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end, and non-monetary items are translated at historical exchange rates. Foreign currency transactions are translated at the weighted average rate for the year. Exchange gains or losses are included in the consolidated statements of income, except those related to the translation of long-term debt which are deferred and amortized over its remaining life on a straight-line basis.

i) Earnings per share:
Basic earnings per share are calculated using the weighted average number of common shares and preferred shares outstanding during the year since the preferred shares rights to participate in the Corporation's earnings are equivalent to those of the common shares. Fully diluted earnings per share are calculated based on the weighted average number of shares that would have been outstanding during the year had all options been exercised at the beginning of the year (or the date of issuance of these instruments, if later).

(Tabular figures in thousands of dollars, except number of shares)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

j) Long-term incentive plan:

The Corporation has a long-term incentive plan, which is described in note 8. No compensation expense is recognized for this plan when shares or options are issued to plan participants.

2. BUSINESS ACQUISITION:

On July 30, 1999, the Corporation acquired from its parent company all of the issued and outstanding shares of Tarkett North America Holding, Inc. ("Tarkett NA"), a US corporation engaged in the manufacturing and marketing of resilient and hardwood floor covering products, at a price of $80,208,000 including acquisition costs of $4,858,000. The acquisition price was based on an independent evaluation of Tarkett NA and approved by an Independent Committee of the Board of Directors of the Corporation. The acquisition also required approval by a majority of the non-controlling shareholders of the Corporation. This acquisition has been accounted for using the purchase method and the results of operations of Tarkett NA have been consolidated from July 31, 1999.

The following reflects the allocation of the purchase price to the net assets acquired:

	$
Net assets acquired at fair value:	
Cash and cash equivalents	10,488
Accounts receivable	43,844
Inventories	82,625
Other current assets	16,345
Property, plant and equipment	89,117
Other assets	7,609
Accrued employees' future benefit asset	4,745
Deferred income taxes	9,767
Goodwill	29,840
	294,380
Accounts payable and accrued liabilities	(69,920)
Long-term debt	(23,190)
Long-term debt - parent company	(91,682)
Accrued employees' future benefit liabilities	(29,380)
	80,208
Consideration paid:	
Cash	10,208
Issue of 43,000 preferred shares, Series 1 to Tarkett AB, the parent company	43,000
Issue of 27,000 preferred shares, Series 2 to Tarkett AB, the parent company	27,000
	80,208

The Share Purchase Agreement includes a contingent consideration clause based on future results of Tarkett NA for the four years ending December 31, 2003. Under this clause, the Corporation may have to pay an additional consideration of up to $40 million. The amount of this contingent consideration, if any, is not determinable at this time and has not, therefore, been included in the allocation of the purchase price.

(Tabular figures in thousands of dollars, except number of shares)

3. INVENTORIES:

	2000 **$**	1999 $
Raw materials	**25,811**	23,673
Work-in-process	**11,501**	11,391
Finished goods	**102,083**	106,381
	139,395	141,445

4. PROPERTY, PLANT AND EQUIPMENT:

			2000 **$**
	Cost	**Accumulated depreciation**	**Net book value**
Land	**5,667**	–	**5,667**
Buildings and improvements	**75,472**	**16,520**	**58,952**
Equipment	**178,989**	**94,087**	**84,902**
Assets under construction or development	**10,553**	**–**	**10,553**
Property under capital lease	**3,593**	**265**	**3,328**
	274,274	**110,872**	**163,402**

			1999 $
	Cost	Accumulated depreciation	Net book value
Land	5,453	–	5,453
Buildings and improvements	72,990	12,616	60,374
Equipment	180,538	86,663	93,875
Assets under construction or development	4,829	–	4,829
Property under capital lease	3,458	75	3,383
	267,268	99,354	167,914

The cost of property, plant and equipment has been presented net of $5.72 million of government assistance (1999 - $3.8 million).

5. OTHER ASSETS:

	2000 **$**	1999 $
Sales aids, net of accumulated amortization	**17,030**	14,704
Accrued employees' future benefit asset	**3,614**	5,926
Deferred financing charges, net of accumulated amortization	**1,454**	1,798
Deferred foreign exchange loss, net of accumulated amortization	**827**	1,195
Cash surrender value of life insurance	**2,122**	1,912
Other	**2,058**	1,653
	27,105	27,188

(Tabular figures in thousands of dollars, except number of shares)

6. SHORT-TERM CREDIT FACILITY:

As at December 31, 2000, the Corporation has an unused credit facility of US$25 million (1999 - US$25 million) under which amounts can be drawn in Canadian or US dollars at variable rates based on US base rate, LIBOR, Canadian Base rate or Canadian prime rate plus a premium determined on a quarterly basis. These credit facilities are renewable annually.

7. LONG-TERM DEBT:

	2000 $	1999 $
a) Revolving term loan under a US$45 million credit facility bearing interest at the LIBOR rate plus 0.75% and payable in minimum annual instalments of US$2.8 million and a final payment of US$25.8 million on March 31, 2003. The loan outstanding at December 31, 2000 was US$31.4 million (US$34.2 million in 1999). The effective interest rate as at December 31, 2000 was 7.52% (1999 - 6.89%).	**47,084**	49,361
b) Term loan of US$60 million bearing interest at variable rates based on LIBOR or US base rate plus a premium determined on a quarterly basis, payable in minimum annual instalments of US$6.6 million commencing on July 30, 2001 and a final payment of US$40.2 million on July 31, 2004. The effective interest rate as at December 31, 2000 was 7.81% (1999 - 7.94%).	**89,970**	86,598
c) Revolving loan under a credit facility of US$25 million bearing interest at variable rates based on LIBOR or US base rate plus a premium determined on a quarterly basis, maturing on July 31, 2004. The loan outstanding at December 31, 2000 was US$10 million (1999 - US$15 million) and the effective interest rate as at December 31, 2000 was 7.81% (1999 - 7.94%).	**14,995**	21,650
d) 6.5%, note payable in annual instalments of US$1.3 million and maturing on August 15, 2003. The loan outstanding at December 31, 2000 was US$3.9 million (1999 - US$5.2 million).	**5,848**	7,505
e) 6.0%, note payable as to US$3.0 million on August 15, 2002 and as to US$3.5 million on August 15, 2003. The loan outstanding at December 31, 2000 was US$6.5 million (1999 - US$6.5 million).	**9,747**	9,382
f) Obligations under capital leases of US$2.3 million bearing interest at 9.75%, repayable in monthly instalments of US$33,000 and maturing in 2008.	**3,204**	3,352
g) Interest-free loan from Société de développement industriel du Québec ("SDI") payable in five annual instalments of $188,160 commencing in September 2002.	**941**	941
	171,789	178,789
Less current portion	**16,347**	6,185
	155,442	172,604

(Tabular figures in thousands of dollars, except number of shares)

7. LONG-TERM DEBT (continued):

The loans under (a), (b) and (c) and the unused short-term credit facilities described in note 6 are collateralized by a negative pledge on all the assets of the Corporation and its subsidiaries.

The note under (d) is collateralized by land and buildings and improvements.

The terms of the credit facilities require that certain financial and non-financial covenants be met by the Corporation. These include the maintenance of certain financial tests and ratios and certain restrictions and limitations, including those on the amount of capital expenditures and amount of dividends paid by the Corporation.

The Corporation is party to an interest rate cap agreement at 7.5% on US$80 million for the period of July 31, 2000 to July 30, 2001 and on US$60 million for the period of July 31, 2001 to July 31, 2002. This agreement becomes effective if the floating rate is at 7.5% or greater to a maximum of 8.49%.

Payments required over the next four years and in aggregate for long-term debt, excluding obligations under capital leases, are as follows:

	$
2001	16,045
2002	20,731
2003	55,969
2004	75,463
Thereafter	377
	168,585

The minimum payments required for obligations under capital leases are as follows:

	$
2001	594
2002	594
2003	594
2004	594
Thereafter	2,227
Total minimum lease payments	4,603
Less amount representing interest at 9.75%	1,399
Present value of net minimum capital lease payments	3,204
Current portion of obligations under capital leases	302
	2,902

(Tabular figures in thousands of dollars, except number of shares)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS:

a) Authorized:
Unlimited number of common shares

b) Issued and outstanding:

	2000 **$**	1999 $
25,407,535 common shares (1999 – 25,400,535 shares)	**165,445**	165,405
Contributed surplus	**1,486**	1,486
	166,931	166,891

c) Summary of common shares transactions:

	Number of shares	$
Balance, December 31, 1998	19,724,744	95,343
Shares issued upon:		
Conversion of preferred shares	5,668,016	70,000
Share purchase plan	7,775	62
Balance, December 31, 1999	25,400,535	165,405
Shares issued upon:		
Share purchase plan	7,000	40
Balance, December 31, 2000	**25,407,535**	**165,445**

d) Summary of preferred shares transactions:
As part of the purchase price of Tarkett NA, the Corporation issued the following preferred shares on July 30, 1999:

43,000 preferred shares, Series 1, non-cumulative dividend equivalent to the dividend declared per common share; convertible into a number of common shares based on the price of a public equity offering or as determined by an independent valuer designated by an Independent Committee of the Board of Directors for that purpose but in no event less than $10 per common share.

27,000 preferred shares, Series 2, non-cumulative dividend equivalent to the dividend declared per common share; automatically redeemable concurrently with the closing of a public equity offering; if not all redeemed, convertible into a number of common shares based on a price determined by an independent valuer designated by an Independent Committee of the Board of Directors for that purpose but in no event less than $10 per common share.

On December 31, 1999, the Corporation converted all of its issued and outstanding preferred shares Series 1 and 2 into 5,668,016 common shares at a conversion price of $12.35 per common share, which was determined by an Independent Committee of the Board of Directors as fair and equitable and based upon a value fixed by an independent valuer designated by the Independent Committee.

(Tabular figures in thousands of dollars, except number of shares)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued):

e) Long-term incentive plan:

The Corporation has a long-term incentive plan (the "Plan") for its senior executives. The Plan is composed of a share purchase plan and options to purchase common shares of the Corporation.

According to the terms of the share purchase plan, each eligible executive under the Plan will be entitled to purchase a number of common shares of the Corporation over a five-year period as a function of base salary, at a price equal to 95% of the weighted average price of the common shares on the Toronto Stock Exchange during the five consecutive days prior to the purchase date. The maximum number of common shares that may be issued pursuant to the share purchase plan will not exceed 90,000. During 2000, 7,000 shares (1999 – nil) were issued for a cash consideration of $40,110.

In addition, the Board may from time to time grant options to purchase common shares of the Corporation to eligible executives. The options may be exercised at an amount equal to or greater than the average closing price of the common shares on the Toronto Stock Exchange on the last business day before the date of the grant. The options vest gradually over a period of five years and can be exercised at all times up to seven years after they have been granted. The maximum number of common shares that are issuable under the Plan following the exercise of options granted will not exceed 450,000. During 2000, 213,650 options were issued at an exercise price of $6 per share and in 1999, 73,750 options were issued at an exercise price of $10 per share. These represent all outstanding options as at December 31, 2000.

9. DEFERRED TRANSLATION ADJUSTMENTS:

	2000 **$**	1999 $
Balance, beginning of year	**10,524**	21,030
Translation adjustments for the year resulting from changes in US - Canada exchange rate	**8,299**	(10,506)
Balance, end of year	**18,823**	10,524

10. EMPLOYEE FUTURE BENEFITS:

Information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2000 **$**	1999 $	**2000** **$**	1999 $
Accrued benefit obligations:				
Balance, beginning of year	**65,418**	9,902	**27,917**	–
Balance related to Tarkett NA (note 2)	**–**	52,559	**–**	29,380
Current service cost	**3,172**	2,579	**548**	180
Interest cost	**5,021**	2,355	**2,066**	776
Amendments	**(2,388)**	–	**(4,658)**	–
Actuarial losses (gains)	**1,796**	2,981	**338**	(725)
Benefits paid	**(4,262)**	(2,012)	**(2,154)**	(613)
Foreign exchange rate changes and other	**3,466**	(2,946)	**1,313**	(1,081)
Accrued benefit obligations, end of year	**72,223**	65,418	**25,370**	27,917
Plan assets:				
Fair value, beginning of year	**70,363**	11,474	**–**	–
Balance related to Tarkett NA (note 2)	**–**	57,304	**–**	–
Actuarial return on plan assets	**1,949**	4,903	**–**	–
Employer contributions	**–**	1,899	**2,016**	472
Benefits paid	**(4,262)**	(2,012)	**(2,154)**	(613)
Foreign exchange rate changes and other	**3,259**	(3,205)	**138**	141
Fair value, end of year	**71,309**	70,363	**–**	–

(Tabular figures in thousands of dollars, except number of shares)

10. EMPLOYEE FUTURE BENEFITS (continued):

	Pension Benefit Plans		Other Benefit Plans	
	2000	1999	**2000**	1999
	$	$	**$**	$
Funded status - plan surplus (deficit)	**(914)**	4,945	**(25,370)**	(27,917)
Unamortized net actuarial losses (gains)	**4,528**	981	**621**	(413)
Accrued employees' future benefit asset (liability)	**3,614**	5,926	**(24,749)**	(28,330)

Included in the above accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
	2000	1999	**2000**	1999
	$	$	**$**	$
Accrued benefit obligations	**44,034**	30,722	**25,370**	27,917
Fair value of plan assets	**39,532**	29,084	**–**	–
Funded status - plan deficit	**4,502**	1,638	**25,370**	27,917

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Benefit Plans		Other Benefit Plans	
	2000	1999	**2000**	1999
	%	%	**%**	%
Discount rate	**7.50**	6.98	**7.25**	7.50
Expected long-term rate of return on plan assets	**9.00**	8.80	**–**	–
Rate of compensation increase	**4.00**	4.00	**5.00**	5.00

For measurement purposes, a 7.0% annual rate of increase in covered health care was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2006 and remain at that level thereafter.

The Corporation's net benefit plan expense is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2000	1999	**2000**	1999
	$	$	**$**	$
Current service cost	**3,172**	2,579	**548**	180
Interest cost	**5,021**	2,355	**2,066**	776
Expected return on plan assets	**(6,293)**	(2,215)	**–**	–
Curtailment loss (gain) (a)	**985**	–	**(4,658)**	–
Other	**(258)**	91	**(697)**	(244)
Net benefit plan expense (income)	**2,627**	2,810	**(2,741)**	712

a) The net curtailment gain of $3,673 is included as a reduction of administrative, distribution and selling expenses in the consolidated statements of income.

(Tabular figures in thousands of dollars, except number of shares)

11. RELATED PARTY TRANSACTIONS:

Related party transactions were conducted in the normal course of the operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties, except for the purchase of equipment which was measured at net book value.

The following table summarizes the Corporation's transactions for the year with related parties, excluding the acquisition described in note 2:

	2000	1999
	$	$
Transactions for the year:		
Companies under common control:		
Revenues	**–**	27,063
Purchases - equipment	**–**	873
Purchases - inventory	**3,371**	2,585
Parent company:		
Purchases - inventory	**8,625**	3,945
Balance at year-end:		
Companies under common control:		
Accounts payable and accrued liabilities	**5,374**	2,397

12. INCOME TAXES:

The effective income tax rates differ from the Canadian federal-provincial statutory income tax rates due principally to the following:

	2000		1999	
	$	**%**	$	%
Income taxes calculated at statutory rates	**3,251**	**37.74**	8,251	39.6
Increase (decrease) resulting from:				
Manufacturing and processing deductions	**(332)**	**(3.19)**	(494)	(1.8)
Lower tax rates for US subsidiaries	**(4,247)**	**(47.00)**	(4,861)	(17.7)
Permanent differences	**1,582**	**4.69**	(414)	(1.5)
Other	**521**	**15.20**	(35)	(2.0)
	775	**7.44**	2,447	16.6

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2000 are as follows:

	Current	**Long-term**
	$	**$**
Provisions deductible for tax purposes in the future	**7,072**	**897**
Accrued employees' future benefits	**–**	**9,029**
Net operating losses carried forward	**–**	**5,596**
Difference in net book value and tax basis of capital assets	**–**	**(18,997)**
Use of LIFO for tax purposes	**(6,227)**	**–**
Other	**(845)**	**–**
Future tax asset (liability)	**–**	**(3,475)**

(Tabular figures in thousands of dollars, except number of shares)

13. COMMITMENTS:

The Corporation is committed under operating leases for premises which require future minimum annual rental payments as follows:

	$
2001	4,080
2002	2,561
2003	1,581
2004	955
2005	755
Thereafter	1,418
	11,350

14. CONTINGENCIES:

a) During 1999, the Corporation acquired the shares of Tarkett NA. In the normal course of operations, there are pending claims by and against Tarkett NA and its subsidiaries. These include claims with respect to products sold or alleging personal injury on property damage from asbestos-containing flooring products as well as off-site clean up costs and environmental remediation costs.

The Corporation will be indemnified for the periods covered by the Share Purchase Agreement in respect of all foregoing contingencies, existing or threatened, prior to the acquisition date, by Tarkett Sommer AG and Tarkett Sommer AB (formerly Tarkett AB).

b) In the normal course of operations, there are pending claims by and against the Corporation. In addition, one of the Corporation's subsidiaries has been named codefendant in asbestos-related lawsuits involving personal injuries. It is the opinion of management, based on the advice and information provided by its legal counsels, that final determination of these cases will not materially affect the Corporation's consolidated financial position or results of operations.

15. FINANCIAL INSTRUMENTS:

a) **Fair values:**
The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value are as follows:

i) Short-term financial assets and liabilities:
The carrying amounts of these assets and liabilities, which comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments.

ii) Long-term debt:
The carrying amount of the Corporation's floating rate long-term debt approximates its fair value because of its floating rate nature and because the debt, denominated in US dollars, is translated using the reporting date exchange rate.

The fair value of the loans having a fixed interest rate is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Corporation's bankers. The fair value of long-term debt as at December 31, 2000 is $170,964,000 (1999 - $175,191,000) compared to a carrying amount of $171,789,000 (1999 - $178,789,000).

b) **Credit risk:**
The Corporation sells products to customers primarily in Canada and the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers comprising the Corporation's customer base and their distribution across different geographic areas. As at December 31, 2000, no customer accounted for more than 5.4% (1999 - one customer accounted for approximately 10%) of total trade receivables.

(Tabular figures in thousands of dollars, except number of shares)

16. SEGMENT DISCLOSURES:

The Corporation operates in three reportable segments: two manufacturing segments (resilient floor covering products and hardwood floor covering products) with sales to Canadian and US distributors, and a Canadian distribution segment engaged in the distribution of floor covering products, mainly manufactured by the manufacturing segments. The accounting policies of the segments are the same as those described in note 1. Intersegment revenues are based on terms similar to those with third parties.

	Manufacturing - Resilient floor covering products		Manufacturing - Hardwood floor covering products		Canadian distribution		Total	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999
	$	$	**$**	$	**$**	$	**$**	$
External revenues	**420,666**	354,365	**159,116**	62,437	**77,515**	74,650	**657,297**	491,452
Intersegment revenues	**33,133**	35,783	**975**	–	**–**	–	**34,108**	35,783
Revenues	**453,799**	390,148	**160,091**	62,437	**77,515**	74,650	**691,405**	527,235
Depreciation	**15,839**	12,145	**7,643**	3,265	**80**	71	**23,562**	15,481
Segment income (loss) from operations	**12,810**	29,205	**18,025**	8,214	**1,524**	(1,252)	**32,359**	36,167
Non-segment expenses:								
Interest on long-term debt							**(13,912)**	(8,350)
Amortization of goodwill							**(7,250)**	(6,552)
Other							**(2,584)**	(430)
Income before provision for income taxes							**8,613**	20,835
Identifiable assets	**267,835**	264,144	**124,425**	112,134	**26,191**	28,373	**418,451**	404,651
Elimination							**(1,361)**	(1,709)
Non-segment assets:								
Goodwill							**132,964**	135,448
Other							**44,746**	35,926
Total assets							**594,800**	574,316

Geographic information:

	Revenues		Property, plant and equipment and goodwill	
	2000	1999	**2000**	1999
	$	$	**$**	$
Canada	**95,853**	89,804	**44,708**	39,527
United States	**557,637**	398,739	**251,658**	263,835
Other	**3,807**	2,909	**–**	–
	657,297	491,452	**296,366**	303,362

17. COMPARATIVE FIGURES:

Certain of the comparative figures have been reclassified to conform to the presentation of the 2000 consolidated financial statements.

DIRECTORS

• **Robert Arcand**
President – Financière Harricana Inc.

♦ **Marc Assa**
Chief Executive Officer – Tarkett Sommer AG

■ **André Bégin**
Partner – Lette & Associés, Lawyers

■ **John B. Claxton, Q.C.**
Counsel – Gowling Lafleur Henderson, Lawyers

• **Michel Cognet**
Chief Operating Officer – Tarkett Sommer AG

•♦ **Claude Lemire**
Business Consultant

■♦ **Alphonse Lepage**
Director

Fernando E. Stroppiana
President – Mondo S.p.A.

Robert W. Van Buren
Vice Chairman of the Board – Domco Tarkett Inc.

• Member of the Audit Committee
■ Member of the Corporate Governance Committee
♦ Member of the Compensation Committee

SENIOR MANAGEMENT

Marc Assa
Chairman of the Board

Robert W. Van Buren
Vice Chairman of the Board

Ulf Mattsson
President and Chief Executive Officer

John Gallo
Executive Vice President and President of the Resilient Division

Robert O. Desautels
Treasurer, Senior Vice President Finance and Chief Financial Officer

Danièle Béliveau
Vice President, General Counsel and Secretary

James K. Morando
President of Harris-Tarkett, Inc. and President of the Hardwood Division

Gilles de Beaumont
President of Domco

Alan Husak
President of Tarkett

François Lemieux
President of Domcor

HEAD OFFICE AND ADMINISTRATIVE OFFICES

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Administrative Offices Domco Inc. USA	P.O. Box 2467	Houston, TX 77252 U.S.A.	Telephone: (713) 802-1008
Domcor	National Operations Centre 1001 Yamaska Street East	Farnham, Québec J2N 1J7	Telephone: 1-800-363-9276 Fax: (450) 293-4744
Harris-Tarkett, Inc.	2225 Eddie Williams Road	Johnson City, TN 37601 U.S.A.	Telephone: (423) 928-3122 Fax: (423) 928-9445
Tarkett, Inc.	1139 Lehigh Avenue	Whitehall, PA 18052-5599 U.S.A	Telephone: (610) 266-5500 Fax: (610) 266-5614

Corporate Information

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To get more information about our products, you may visit our other Web sites:	www.domco.com www.harris-tarkett.com www.tarkettusa.com
Listings	Toronto Stock Exchange: DOC
Major Shareholder	Tarkett Sommer AG: 71.56%
Transfer agent and Registrar	General Trust of Canada, Montreal, Québec Telephone: (514) 871-7171 or 1-800-341-1419 Toronto, Ontario – Telephone: (416) 865-7562
Auditors	KPMG LLP, Montreal, Québec
Annual Meeting of Shareholders	The Annual Meeting of Shareholders will be held at 11:00 a.m. on May 23, 2001 at the Auditorium of the Montreal Exchange, 800 Victoria Square, Montreal, Québec.
Annual Information Form	Shareholders may obtain a copy of the Annual Information Form by writing to the Secretary at the Head Office in Farnham.

Si vous désirez recevoir ce rapport en français, veuillez adresser votre demande à la secrétaire de la Société au siège social à Farnham.

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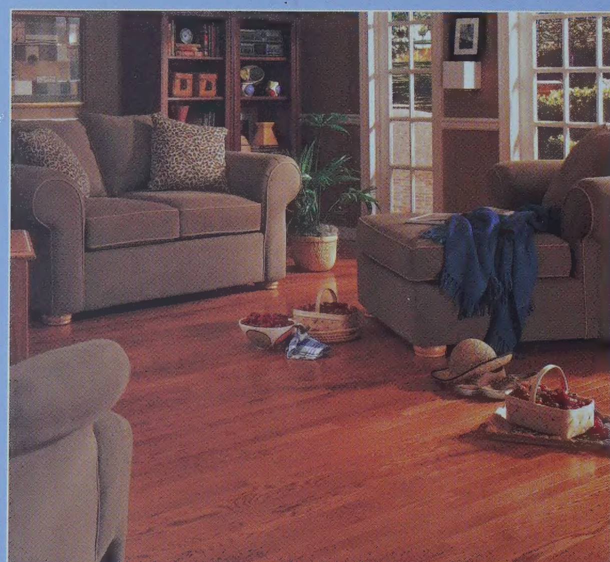
DOMCO TARKETT INC.



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